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UNCLAS OTTAWA 002700

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SUBJECT: CANADA'S GLOBAL SAFEGUARD INQUIRY INTO BICYCLES
FINDS 'SERIOUS INJURY'

REF: OTTAWA 01021

1. The Canadian International Trade Tribunal (CITT) has published its final report determining that imports of bicycles are a principal cause of "serious injury" to Canadian bicycle manufacturers. CITT has recommended a surtax on assembled or unassembled bicycles with a wheel diameter greater than 15 inches and a FOB of C\$225 or less (equivalent to C\$400 retail) of 30% in the first year of application, 25% in the second year and 20% in the third year.

2. Possible exception for U.S. manufacturers: CITT has recommended that bicycles imported from countries with which Canada has entered into a free trade agreement (U.S.A., Mexico, Israel, Chile) and developing countries other than China, the Philippines, Thailand and Vietnam be exempted, presumably under WTO rules for small developing-country suppliers.

3. As explained in reftel, an exception for U.S.-manufactured bicycles is almost meaningless, because very few U.S. manufactured bicycles fall into the affected price range, and 95 percent of U.S. bicycle companies manufacture their products overseas. U.S. distributors and U.S. chains retailing in Canada (such as Walmart) will be affected

4. If the Canadian government implements CITT's recommendations, the price of imported bicycles will increase substantially, which will adversely impact distributors, retailers, consumers and arguably the environment. At a time when the Canadian government has issued a "one ton challenge" for citizens to lower their share of CO2 emissions and urged petroleum conservation to mitigate Hurricane Katrina's effect on oil prices, raising bicycle prices seems counter-intuitive.

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